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## CHAPTER 6: MONITORING, CLOSE-OUT, AND ACCOUNTING REQUIREMENTS

### SECTION 1. MONITORING AND CLOSE-OUT

#### 6-1. MONTHLY REVIEWS

##### a. Owner Submission

The owner must submit the following information to the Field Office no later than the fifth calendar day of each month:

- (1) a Monthly Accounting Report for the previous month (Forms [HUD 93479](#), 93480, and 93481);
- (2) Form [HUD-9835](#), Part II, Section A of the MIO Plan; and
- (3) Any Requisition for Advance of Flexible Subsidy Funds, Form [HUD-9823-A](#), processed during the previous month.

The report package is structured to give the Field Office detailed information on individual disbursements and action items. It also provides a general indication of progress made toward completing action items and achieving management objectives related to occupancy and collections.

##### b. Field Office Actions

The Field Office should:

- (1) Assure that all Project Improvement Funds transferred to the project's checking account during the previous month are reported as receipts on Form [HUD-93479](#).
- (2) Determine if the owner has made all requests for disbursement of Flexible Subsidy assistance based upon a reasonable estimate of need, and only as required after other funds have been exhausted.

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- (3) The Field Office must prepare a Monthly Status Report, Form HUD-9823-F (See Appendix 16), and submit it to the Regional Office of Housing, along

with Parts I and II of the Flexible Subsidy Control Log. The Regional Office will monitor project progress, and will notify Headquarters if problems arise.

#### 6-2. QUARTERLY REVIEWS

On a quarterly basis the Field Office must conduct an in-depth review of each Flexible Subsidy contract. As a result of this review, the Field Office, in consultation with the owner, should revise the MIO Plan or Work Write-Up, as necessary.

##### a. Owner Submission

Owners must submit quarterly assessments of their projects' progress under the MIO Plan or Work Write-Up to the Field Office. The report must be submitted by the fifth calendar day of the quarter and must include:

- (1) Quarterly Performance Report, Form HUD-9824-A, (Appendix 29). The Quarterly Performance Report groups the monthly accounting reports, individual disbursements into expense and repair categories and facilitates comparison of the quarter's actual income, expense and work progress with that originally projected in the MIO Plan or Work Write-Up.
- (2) Management Objectives, Part II, Section B of the MIO Plan, Form HUD-9835-A; and
- (3) A narrative explaining:
  - o any deviation of 10 percent or more from amounts budgeted for any expense category, any individual income item or the operating deficit projected on the Budget Worksheet for the quarter covered by the report; and
  - o any quarterly milestone or target completion date due and not achieved during the quarter.

##### b. Field Office Actions

The Field Office should:

- (1) Attempt to determine the cause of any significant deviation from the cost estimates, time schedules

or operating budget presented in the MIO Plan or Work Write-Up, and should request that the owner take appropriate corrective action. If repair costs appear excessive, the Field Office may request the owner to submit evidence that all required bids and cost comparisons have been obtained.

- (2) Review the invoices for all repair items for which Project Improvement Funds were used during the quarter and list the amount, date and source of each deposit made to the Project Improvement Account during the quarter.
- (3) Determine if the work schedule and cost estimates originally included in the Part II, Section A of the MIO Plan (Action Items, Form [HUD-9835](#)) are still realistic and appropriate. In doing so, the Field Office should review actual performance during the previous quarter and estimate work progress for the upcoming quarter.

Part C of the Quarterly Performance Report has been designed to facilitate this portion of the review and provides space for the Field Office to record its estimate of the next quarter's need for each category and subcategory of uses.

- (4) Estimate the amount of Flexible Subsidy assistance needed for the next quarter. The Field Office must consider the balance in the Project Improvement Account as well as the work projected for the next quarter. The Field Office should adjust the sources authorized for the next quarter whenever adherence to the original MIO Plan or Work Write-Up would provide significantly more or less than the amount needed.

For example, if an owner has completed repair work faster than planned and expects to continue work at the faster pace, the Field Office may wish to increase the amount available for transfer during the next quarter. Similarly, if repair work was

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completed more slowly than expected because of circumstances beyond the control of the owner (e.g., availability of supplies, weather conditions) but the owner expects to increase the work pace and catch up with the cumulative amounts

authorized in the original plan through the next quarter, the Field Office may elect not to change the MIO Plan or Work Write-Up.

- (5) Send the owner and the RAD copies of any revisions to Part II of the MIO Plan. All revisions should be dated, numbered consecutively in the space provided on the form, and sent no later than the tenth calendar day of the quarter. Changes in action items or in the quarterly distribution of Flexible Subsidy payments require amendments to the body of the contract only if such changes result in an increase or decrease in the total annual amount of Flexible Subsidy assistance. Such increases will not generally be needed before the fourth quarter and should not be executed before other Project Improvement Funds are close to being exhausted.
- (6) Submit the Quarterly Report to the Regional Director of Housing, and to the Director, Office of Multifamily Housing Management.

#### 6-3. ON-SITE VISITS

##### a. Operating Assistance Program

- (1) Within 45 days after the end of the second quarter of the contract, the Field Office must visit projects receiving OAP to determine if the work itemized on invoices has actually been completed. The Field Office must also evaluate progress under Part II of the MIO Plan.
- (2) On-site reviews must be completed quarterly at each OAP project for which total repairs planned for the contract terms average \$2,000 or more per unit. More frequent visits should be made whenever the Loan Management Branch Chief determines that such visits are needed to successfully implement and monitor a project's MIO Plan.

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##### b. CILP

Regular on-site visits are not required for CILP. Field Offices should visit the site as often as necessary to assure that the work undertaken with CILP funds is satisfactory.

#### 6-4. SPECIAL FEES

##### a. Management Fee

The only type of management fee that may be paid for administering Flexible Subsidy funds is the special management fee described in HUD Handbook 4381.5 REV-1, Management Documents, Agents and Fees. However, the existence of a Flexible Subsidy loan does not automatically entitle an agent to take a special management fee.

Special fees:

- (1) Must be approved by the owner;
- (2) May be approved only if all the conditions in Paragraph 2-17D of HUD Handbook 4381.5 are met;  
and
- (3) Must be reflected in the operating expense estimate if approved.

##### b. Architectural and Oversight Fees

- (1) If the work involves substantial rehabilitation of the project, the Field Office may at its discretion, allow:
  - o up to five percent of total MIO Plan hard costs for architectural fees and
  - o up to an additional six percent of total MIO Plan hard costs for construction oversight by a general contractor, architect or administrator.
- (2) Fee recipients must be selected by competitive bid, and must be licensed general contractors or architects. They must also have significant experience in construction, multifamily dwelling

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rehabilitation, property management and accounting procedures.

- (3) If HUD Architectural and Engineering staff is available to perform construction inspections this staff should perform these inspection eliminating

the need to pay outside contractors out of Flexible Subsidy funds.

#### 6-5. ENFORCEMENT ACTIONS

- a. Whenever an owner violates any of the loan terms or defaults under any clause of the mortgage or project regulatory agreement, the Field Office may instruct the RAD not to deposit additional Flexible Subsidy funds in the Project Improvement Account.
- b. If the owner does not take the requested actions, the Field Office may cancel the agreement, draw out the balance in the Project Improvement Account, and distribute the funds as provided in the loan documents.

#### 6-6. IMPACT EVALUATION

##### a. Projects NOT Required to Complete a MIO

The Field Office must conduct an impact evaluation at projects that have completed work under the CILP program that were not required to submit a MIO Plan. Within 30 working days after the end of the contract term, the Field Office must complete a comprehensive on-site review to determine whether all actions required by the Work Write-Up have been completed.

##### b. Projects Required to Complete A MIO

- (1) Within 30 working days after the end of the contract term, the Field Office must determine whether:

- o all actions required by the MIO Plan have been completed; and
- o if additional relief is needed to stabilize project operations.

- (2) Before making such a determination, the Field Office must:

- o Complete a comprehensive on-site review of the project, concentrating on problem areas noted on the previous management review or physical inspection or addressed in the MIO Plan. The Field Office must document its assessment of the project's operations and

conditions on the Management Review Report, Form HUD-9834, and the Report of Physical Condition and Estimate of Repair Costs, Form HUD-9822.

- o Review the project budget proposed by the owner for the next 12 months. The Field Office should compare the budget's net operating income and cash flow projections with those made on the Project Analysis Worksheet prepared during the MIO Plan negotiations. If current projections differ significantly from those on the Project Analysis Worksheet, the Field Office may need to reconsider its long-term plans for the project.
  - o Determine if additional relief is necessary. If the Field Office finds that some MIO Plan action items have not been completed and that funds are still available in the Project Improvement Account, the Field Office may extend the term of the Contract for up to 90 calendar days and notify the RAD that the contract has been extended.
- (3) If the Field Office determines that another long-term relief program is needed, the Field Office should close out the existing relief plan, complete the analysis process again, and negotiate a new MIO Plan with the owner. If the Field Office decides that additional long term relief is not necessary, it need only complete the close-out procedures described below.

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#### 6-7. CLOSE-OUT PROCEDURES

##### a. Operating Assistance Program

###### (1) Physical Improvements

The Field Office must take the following actions to close out physical improvement work undertaken with OAP funds:

- o conduct a final inspection with the project principals to assure that all work is complete;
- o unused funds can be used for other OAP assistance

if the specific item was funded in the MIO Plan and if the Field Office approves it. However, the Field Office should recapture any remaining funds designated for physical improvements, return them to Headquarters, and revise the loan documents accordingly.

- o assure that the owner establishes a Latent Defects Bond, if required by the Field Office. This is normally two and a half percent of the amount of the loan for 15 months beyond completion.
- o for State-Agency-owned projects, require that the HFA certify that
  - all work is acceptable and complete;
  - funds have been disbursed only for items eligible for OAP funding; and
  - all loan funds have been disbursed, or any remaining loan funds have been returned to HUD.
- o A release of mechanics liens should be obtained from all the contractors employed on work HUD has funded before close-out.

(2) Other Assistance

- o The intensive monitoring required during the term of the Financial Assistance Contract should not automatically terminate when the 12 month contract term expires. The project's condition, not a

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- o calendar, should determine when the Field Office may justifiably relax its servicing effort.
- o Generally, a project should be returned to a routine servicing mode only after the Field Office concludes that project conditions have been stabilized and further intensive servicing is unnecessary. The Field Office must complete a formal evaluation of project conditions at the end of the contract term and take specific administrative actions to close out the MIO Plan.
- o Within 45 calendar days after the end of the contract term, the Field Office must make a



decision regarding any Replacement Reserve and working capital funds authorized in Part II, Section C of the MIO Plan. These funds should be released only if the evaluation indicates that the owner has complied with the terms of the Financial Assistance Contract and that a need still exists for these funds;

- o The Field Office must make a decision as to the distribution of any other funds remaining in the Project Improvement Account. If the owner has applied for additional Flexible Subsidy and the Field Office has Headquarters approval to enter into another Financial Assistance Contract immediately, the funds may be left in the Project Improvement Account and included in the new contract amount. However, if the Field Office has determined that additional relief is not needed, the Field Office should arrange to distribute funds in accordance with the Financial Assistance Contract.
- o Whenever funds will be left in the Project Improvement Account and included in a new contract, the Field Office must execute a contract amendment reducing the new contract amount by the amount of funds due the Department or the amount to remain in the Project Improvement Account. The RAD should receive a copy of both the fully executed contract amendment and a letter from the Field Office with instructions as to how to proceed.
- o The Field Office should approve an Operating Budget, Form HUD-9824, for the next 12 months and

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execute a new Rental Schedule, Form HUD-92458, if necessary.

- o The Field Office should direct the owner as to future reporting requirements. The Field Office may continue to require monthly accounting reports and quarterly budget comparisons, as it deems necessary.
- o Field Office staff must close out the project on the Flexible Subsidy Control Log. They should also send a memo to the RAD stating that the project is closed out and that excess funds will

be recaptured.

b. Capital Improvement Loan Program

The Field Office must take the following actions to close out the Capital Improvement Loan:

- o conduct a final inspection with the project principals to assure that all work is complete;
- o recapture any remaining funds and return them to Headquarters (see Appendix 26 for a sample Closing Memorandum for CILP);
- o establish a Latent Defects Bond, if applicable. This is normally two and a half percent of the amount of the loan for 15 months beyond completion.
- o A release of mechanics liens should be obtained from all the contractors employed on work HUD has funded before close-out.
- o for State Agency-owned projects, require that the HFA certify that
  - all work is acceptable and complete;
  - funds have been disbursed only for items eligible for CILP funding; and
  - all loan funds have been disbursed, or any remaining loan funds have been returned to HUD.

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- o Close out the project on the Flexible Subsidy Control Log.
- o Send a closing memorandum to RAD stating project completion and requesting an amortization schedule based on the final loan amount. A sample memorandum is attached in Appendix 26.
- o If in the process of repayment the loan enters default status the Loan Management Branch should service the loan according to procedures set forth in Handbook 4350.1, Chapters 5 & 8.

6-8. REPAYING THE LOAN

Payments on principal or interest on the OA loan can be made only from Residual Receipts or non-project funds, and only after obtaining the prior written approval of the Secretary acting by and through the Federal Housing Commissioner. Such payments may be made only after the end of a semi-annual or annual fiscal period. When an OA loan is paid in full, the owner must continue to abide by the Use Agreement.

CILP loans will be repaid through amortized monthly payments. An amortization schedule with the FHA project number and the CILP appropriation number will be issued to the owner by the RAD following the contract close out. It will be the responsibility of the owner to submit the monthly payments to the RAD and to place the appropriation number on the check to insure proper crediting. The RAD will be responsible for notifying the Loan Management Branch if the owner becomes delinquent in payments.

#### 6-9. RECORDKEEPING

##### a. Owners

Owners must retain all records related to Flexible Subsidy transactions for at least five years after the end of the contract term. This would include invoices, bids, documentation of other cost comparisons, canceled checks, journals, ledgers, etc.

The owner must retain all Notices to Owner for a period of not less than two years. The owner must also obtain Partial Releases of Lien as payments are made, and then a Final Release of Lien prior to closing out the loan. The owner must certify to HUD that all appropriate Lien

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Releases have been obtained and will be available for HUD's review.

##### b. Field Office

The Field Office must retain all documents related to providing Flexible Subsidy assistance, including:

- (1) Original and revised MIO Plans, Form [HUD-9835](#), 9835-A, and 9835-B (see Appendix 8);
- (2) Requisitions for Advance of Flexible Subsidy Assistance, Form [HUD-9823-A](#) (see Appendix 28);

- (3) Reservation of Flexible Subsidy Funds, Form HUD-9823 (see Appendix 19);
- (4) Original loan documents including Financial Assistance Contract Form HUD-9819 (see Appendix 22) and Residual Receipts Note for OAP (see Appendix 7) or Flexible Subsidy Note for CILP (see Appendix 26);
- (5) Monthly Status Reports, Form HUD-9823-F (see Appendix 18);
- (6) Quarterly Performance Reports, Form HUD-9824-A (see Appendix 29);
- (7) Project Analysis Worksheets, Form HUD-9815 (see Appendix 11);
- (8) Field Office Certifications;
- (9) Management Reviews of Multifamily Projects, Form HUD-9834 (see Appendix 9);
- (10) Physical Inspection Reports, Form HUD-9822 (see Appendix 10);
- (11) Reports on close-out review and other site visits; and
- (12) All correspondence.

The Field Office file should be organized to facilitate reviews and audits.

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c. RAD

The Field Office should furnish the RAD with copies of:

- o The Use Agreement,
- o The Financial Assistance Contract; and
- o The Regulatory Agreement.

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## SECTION 2. ACCOUNTING REQUIREMENTS

### 6-10. GENERAL POLICIES

- (1) The accounting requirements for OA and CILP are the same, and are described jointly in this chapter.
- (2) The portion of the Flexible Subsidy assistance that is used to effect major repairs does not increase the owner's basis in the project for purposes of computing rent increases. In addition, the Flexible Subsidy payments are not included in the project's surplus cash computation.
- (3) To assure that Flexible Subsidy and other improvement funds do not distort the project's regular operating budget, thus rendering ratio analysis and historical expense comparisons impossible, special accounts must be established and accounting reports annotated for any project receiving Flexible Subsidy assistance. The account classifications and the impact of the Flexible Subsidy on the project's monthly and annual financial statements are discussed below.
- (4) Other accounting considerations are contained in HUD Handbook 4370.2.

### 6-11. ACCOUNT CLASSIFICATION

Any project receiving Flexible Subsidy must establish the accounts listed below. The account numbers have been assigned in accordance with the method of numbering accounts prescribed in Handbook 4370.2, Financial Operations and Accounting Procedures.

#### a. Project Improvement Account (Acct. No. 1380)

This cash account is debited whenever funds (owner contributions, releases from reserves, Flexible Subsidy payments, retroactive mortgage relief, etc.) are deposited and is credited for the total amount of funds transferred out of the Account. It has been established as a restricted asset account because funds deposited in it may only be used for purposes specified in the MIO Plan and may not be included in the

computation of surplus cash. When Flexible Subsidy assistance is deposited in the Project Improvement

Account, the offsetting credit is to account no. 2340, "Flexible Subsidy Loan Payable," or account no. 2350, "Capital Improvement Loan Payable."

b. Flexible Subsidy Income (Acct. No. 5180)

This account is credited for the amount of Project Improvement Funds that are transferred from the Project Improvement Account to:

- o reduce mortgage delinquencies, escrow deficits and/or accounts payable;
- o cover monthly operating deficits; or
- o meet working capital needs.

Offsetting debits are to the relevant expense or asset accounts.

c. Accounts Payable -- Project Improvement Items (Acct. No. 2112)

This account is credited for bills vouchered for work items included on Lines 1 a through 1d of Part II, Section C of the MIO Plan.

6-12. IMPACT ON PROJECT FINANCIAL REPORTS

a. Monthly Reports

- (1) Monthly Accounting Reports, Forms HUD 93479, 93480 and 93481, are prepared on a cash basis and show all funds flowing into and out of the project's checking account. Therefore, all funds transferred from the Project Improvement Account to the project's checking account should appear in the collection portion of Form [HUD-93479](#), and amounts paid for items included in Part II, Section C of the MIO Plan should appear on the disbursement schedule, Form HUD-93480.
- (2) Amounts transferred from the Project Improvement Account to the mortgagee for application to mortgage delinquencies or escrow deficits will be recorded in the project's journal and will be shown on the monthly accounting report.

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- (3) When disbursed from the project's checking

account, monthly operating deficit funds may flow through any of the expense accounts listed on the Budget Worksheet.

- (4) The Field Office may require the owner to annotate the monthly reports, as it deems necessary, to more clearly identify transactions related to the MIO Plan's action items.

b. Annual Financial Statements

- (1) The balance in the Project Improvement Account at the end of the project's fiscal year must be shown in the restricted deposits portion of the balance sheet and must not be included in the surplus cash computation.
- (2) The loan amount should be reflected as a long term liability on the balance sheet.
- (3) Only the annual depreciation associated with items that an owner has capitalized (e.g., addition of a new roof) will appear on the Form HUD-92410; actual cash outlays for these items will be included in the Statement of Cash Flows.

c. MIPS

Data are entered into MIPS by HUD staff in accordance with outstanding instructions.

6-13. RENTAL INCREASES

- (1) The Field Office may approve rental increases whenever normal considerations and the rental increase procedures set forth in the Insured Project Servicing Handbook 4350.1 indicate that an increase is justified.
- (2) The Flexible Subsidy Program does not alter the procedure for calculating the maximum rent potential. However, it does give the Field Office the option of delaying or phasing in the rental increase warranted by the FHA rent formula and covering the resulting operating deficit with Flexible Subsidy funds.